

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 /120 W

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R 021753Z MAR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6862

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 04 BONN 03469

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MARCH 1)

1. FOREIGN EXCHANGE MARKET: DURING THE AFTERNOON OF FEBRUARY 26, THE DOLLAR STRENGTHENED WHEN GERMAN JANUARY TRADE AND PRELIMINARY CURRENT ACCOUNT FIGURES WERE PUBLISHED. BOTH SURPLUSES WERE LESS THAN EXPECTED. ON FRIDAY, FEBRUARY 27, THE DOLLAR STRENGTHENED FURTHER REACHING A HIGH OF DM 2.5700. THIS WAS ATTRIBUTED BY SOME TO THE RETURN OF CITYBANK'S PRIME RATE TO THE 6 3/4 PERCENT LEVEL AND TO ANTICIPATED FAVORABLE LEADING U.S. ECONOMIC INDICATORS

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(PUBLICATION OF LATTER REACHED GERMAN MARKET AFTER

CLOSING HOURS). ON MONDAY, MARCH 1, THE DOLLAR OPENED SOMEWHAT WEAKER. THIS WAS LOOSELY ATTRIBUTED BY SOME IN THE FINANCIAL PRESS TO THE PUBLICATION OF U.S. JANUARY TRADE DATA. HOWEVER, THE DOLLAR GAINED THROUGHOUT THE DAY TO CLOSE AT 2.5800. THIS INCREASE WAS ATTRIBUTED TO EXPECTATIONS OF FURTHER INCREASES IN DOLLAR INTEREST RATES. ON TUESDAY, FEBRUARY 2 THE DOLLAR OPENED HIGHER (AT DM 2.5825) AN BUT FELL AT THE FIXING TO DM 2.5755. THE BASIC UNDERLYING FACTOR FOR THE DOLLAR PERFORMANCE SINCE THE MIDDLE OF THE LAST WEEK APPEARS TO BE THE WIDENING OF INTEREST DIFFERENTIALS BETWEEN DEUTSCHEMARK AND DOLLAR INVESTMENTS. THE ONE-MONTH SPREAD (IN FAVOR OF EURO-DOLLAR OVER EURO-DM INVESTMENTS) INCREASED FROM A LOW OF 1.25 PERCENT ON FEBRUARY 25 TO 1.68 PERCENT ON MARCH 1. THE THREE-MONTH SPREAD, HOWEVER, ROSE INSIGNIFICANTLY FROM 1.94 PERCENT TO 2.00 PERCENT. DURING THE REPORTING WEEK SPOT (FRANKFURT FIXING RATE) AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS (DISCOUNTS IN PCT.P.A.)			
SPOT DOLLARS		ONE-MONTH	THREE-MONTH
FEB 23	DM 2.5615	-1.7	-2.2
24	2.5518	-1.7	-2.0
25	2.5550	-1.2	-2.0
26	2.5622	-1.5	-2.0
27	2.5645	-1.8	-2.1
MAR 1	2.5670	-2.0	-2.1
2	2.5755	N.A.	N.A.

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK WEAKENED SOMEWHAT AFTER FEBRUARY 25, AND, ON MARCH 1 WAS SLIGHTLY WEAKER THAN THE SWEDISH CROWN WHICH BECAME THE STRONGEST CURRENCY OF THE FLOAT. THE ITALIAN LIRA WAS FIXED IN FRANKFURT ON MARCH 1, THE FIRST DAY THAT ITALIAN FOREIGN EXCHANGE MARKETS WERE REOPENED, AT DM 3.311 PER LIT 1000. THIS IS LOWER THAN THE DM 3.344 RATE REACHED ON FEBRUARY 27, AND 12 1/2 PERCENT BELOW THE RATE OF DM 3.788 ON UNCLASSIFIED

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JANUARY 20, THE DAY BEFORE THE CLOSURE OF ITALIAN EXCHANGE MARKETS.

2. MONEY MARKET: THE GERMAN CALL MONEY MARKET EASED SOMEWHAT IN LATE FEBRUARY PROBABLY SINCE THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK WERE HIGHER THAN ANTICIPATED. AT THE BEGINNING OF MARCH THE CALL MONEY RATE DECLINED FURTHER RETURNING TO ABOUT

THE LEVEL OF THE 3 1/2 PERCENT REDISCOUNT RATE. THE
INCREASE IN THE ONE-MONTH MONEY RATE FROM 3.25 ON
JANUARY 23 TO 3.55 ON MARCH 1 MAY REFLECT BORROWINGS
OF BANKS IN ANTICIPATION OF A TIGHTENING OF THE GERMAN
MONEY MARKET IN LATE MARCH AND EARLY APRIL DUE TO THE
MAJOR MID-MARCH INCOME AND CORPORATE TAX DATE. DURING
THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES
DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

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INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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USMISSION OECD PARIS

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FEB 23	3.2-3.5	3.25	3.65
24	3.5-3.7	3.45	3.70
25	3.8-4.2	3.45	3.75
26	3.5-3.7	3.50	3.65
27Q	3.5-3.8	3.50	3.65
MAR 1	3.4-3.7	3.55	3.65

3. BUNDESBANK \$500 MILLION CREDIT TO ITALY: THE BUNDESBANK HAS GRANTED ITALY A CREDIT OF \$500 MILLION, WHICH ACTUALLY REPRESENTS A RE-EXTENSION OF THE \$500 MILLION FIRST TRANCHE PREPAYMENT BY ITALY OF THE BUNDESBANK'S ORIGINAL \$2 BILLION CREDIT. ACCORDING TO THE BUNDESBANK UNCLASSIFIED

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THE FULL \$2 BILLION CREDIT (INCLUDING THE NEW \$500 MILLION TRANCHE) WILL MATURE IN AUGUST 1976. THE NEW CREDIT WAS AGAIN EXTENDED AGAINST A PLEDGING OF ITALY'S GOLD RESERVES. HOWEVER, WHILE THE ORIGINAL CREDIT PLEDGED GOLD AT A PRICE OF \$140 PER OUNCE, THE NEW \$500 MILLION CREDIT WILL PRICE GOLD LOWER, PROBABLY IN THE AREA OF \$120 PER OUNCE.

4. 1975 LOSSES OF HESSISCHE LANDESBANK: ACCORDING TO A PRESS CONFERENCE GIVEN BY THE PRESIDENT OF THE HESSISCHE LANDESBANK (HELABA) THE BANK AGAIN IN 1975 HAD TO MAKE DEPRECIATIONS ON RISKY OUTSTANDING CREDITS WHICH MAY AMOUNT TO DM 400-500 MILLION. DM 200-300 MILLION OF THE DEPRECIATION MAY BE COVERED BY 1975 PROFITS OF THE BANK; THE FINAL LOSS OF SOME DM 200 MILLION MUST BE COVERED BY CAPITAL INFUSIONS OF THE OWNERS OF THE HESSISCHE LANDESBANK - THE LAND HESSE AND THE 52 HESSIAN SAVINGS BANKS. ACCORDING TO THE LANDESBANK PRESIDENT, THE NEW LOSSES RESULT FROM AN EARLIER ENGAGEMENT OF THE LANDESBANK IN TWO LARGE REAL ESTATE PROJECTS, AND THE BANKS' ENTANGLEMENT IN THE FAILURE OF THE GLOEGGLER TEXTILE CONCERN.

5. MONEY SUPPLY: AS IN DECEMBER THE MONETARY EXPANSION WAS IN JANUARY AGAIN LOWER THAN IN EARLIER MONTHS. ON A SEASONALLY ADJUSTED BASIS M1, M2 AND M3 (M2 PLUS SAVINGS DEPOSITS WITH A THREE-MONTH PERIOD OF NOTICE) DEVELOPED AS FOLLOWS:

	1975		1976	
	OCT	NOV	DEC	JAN
M1	0.4	3.7	-0.1	2.3
M2	4.3	3.1	1.4	-1.3

M3 7.2 6.1 3.1 2.1

IN THE PERIOD NOVEMBER 1975-JANUARY 1976 (SEASONALLY
ADJUSTED AND AT ANNUAL RATES) M1 INCREASED BY 9 PERCENT,
M2 BY 2 PERCENT AND M3 BY 8 PERCENT. A MAJOR FACTOR
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FOR THE LOW MONETARY EXPANSION IN JANUARY WAS A DECLINE
IN BORROWINGS OF PUBLIC AUTHORITIES FROM DM 6.6 BILLION
IN DECEMBER 1975 TO DM 1.6 BILLION IN JANUARY. IN
JANUARY THE INDIVIDUAL COMPONENTS AND DETERMINANTS OF
THE MONEY SUPPLY DEVELOPED AS FOLLOWS:

	1975	1976	1975
	DEC.	JAN.	JAN.
	-----	-----	-----
(DM BILL)			

I. BANK LENDING TO DOMESTIC NON-
BANKS 16.0 -0.8 -3.4
OF WHICH: TO PUBLIC AUTH. 6.6 1.6 2.3 .
TO PRIVATE SECT. 9.3 -2.4 -5.7

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TO SECSTATE WASHDC 6864
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
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USMISSION OECD PARIS
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II.NET EXTERNAL ASSETS OF BANKS
(INCLUDING BUNDESBANK) -2.4 -0.9 2.5
III.SAVINGS DEPOSITS AND SAVINGS
BONDS 19.7 4.5 3.9
IV. TIME DEPOSITS (1) AND OUT-
STANDING BANK BONDS (2) 1.2 4.9 3.1
V. OFFICIAL ASSETS HELD AT
CENTRAL BANK -3.8 1.8 1.6
VI. OTHER -11.4 4.8 4.8
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VII. MONEY SUPPLY (M2)
(I PLUS II MINUS III
MINUS IV MINUS V MINUS
VI) 7.9 -17.7 -14.3
OF WHICH: CURRENCY IN CIRCU-
LATION AND SIGHT DEPOSITS
(M1) 1.8 -14.2 -13.8
TIME DEPOSITS WITH MATU-
RITIES UP TO 4 YEARS 6.1 -3.6 -0.5

(1) WITH MATURITIES OF 4 YEARS AND MORE.
(2) EXCLUDING BONDS HELD BY BANKS.

6. INVESTMENT OF NON-BANKS IN TREASURY NOTES FA-
CILITATED: THE FEDERAL GOVERNMENT HAS REDUCED MINIMUM
AMOUNTS FOR PURCHASES OF TREASURY NOTES (ONE-AND TWO-
YEAR MATURITIES, NOT RETURNABLE BEFORE MATURITY) FROM
DM 5,000 TO DM 1,000. SUCH NOTES, SO-CALLED "FINANZIE-
RUNGSSCHAETZE", ARE SOLD TO DOMESTIC INDIVIDUALS

AND FIRMS AND MAY BE PURCHASED IN AMOUNTS UP TO DM 100,000 PER PERSON AND BUSINESS DAY. IN A PRESS STATEMENT THE BUNDESBANK EXPLAINED THAT THE REDUCTION IN MINIMUM AMOUNTS SHOULD FACILITATE THE FINANCING OF FEDERAL BUDGET DEFICITS. (THE NOTES ARE SOLD ON A DISCOUNT BASIS AT INTEREST RATES OF CURRENTLY 5 1/8 PERCENT (ONE-YEAR NOTES; YIELD 5.40 PERCENT) AND 5 3/4 PERCENT (TWO-YEAR NOTES; YIELD 6.30 PERCENT).

7. BUNDESBANK FOREIGN POSITION: IN THE THIRD WEEK OF FEBRUARY (FEBRUARY 16-23) THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.3 BILLION TO DM 86.3 BILLION RETURNING TO A LEVEL WHICH PREVAILED IN MARCH 1975. ACCORDING TO THE BUNDESBANK, THE INCREASE WAS DUE TO FOREIGN EXCHANGE MARKET INTERVENTIONS BY THE BUNDESBANK WHICH, DUE TO A TWO-BUSINESS DAY DELIVERY PERIOD IN FOREIGN EXCHANGE TRANSACTIONS WERE BOOKED ONLY IN THE THIRD WEEK OF FEBRUARY. SPECIAL CREDITS TO THE IMF INCREASED BY DM 227 MILLION, HOLDINGS OF LIQUID FOREIGN EXCHANGE BY DM 305 MILLION AND CLAIMS ON THE EUROPEAN FUND FOR MONETARY COOPERATION BY DM 26 MILLION. GROSS UNCLASSIFIED

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FOREIGN LIABILITIES ROSE BY ABOUT DM 260 MILLION.

8. BANK LIQUIDITY: IN THE THIRD WEEK OF FEBRUARY BANK LIQUIDITY INCREASED BY DM 1.1 BILLION. MAJOR FACTORS INCREASING LIQUIDITY WERE A DM 4.7 BILLION DECLINE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK,

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THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE THIRD WEEK OF A MONTH (DM 2.4 BILLION) AND THE ABOVE MENTIONED INCREASED IN BUNDESBANK MONETARY RESERVES. THE ONLY BASIC FACTOR REDUCING LIQUIDITY WAS AN INCREASE OF DM 5.1 BILLION IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK BASICALLY REFLECTING PAYMENTS FOR THE MINOR MID-FEBRUARY TAX DATE. OTHER FACTORS, NET, REDUCED LIQUIDITY BY DM 1.2 BILLION. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE THEIR REDISCOUNT BORROWINGS.

9. ECONOMIC INDICATORS RELEASED THIS WEEK: ON THE BASIS OF ITS LATEST BUSINESS SURVEY, THE IFO ECONOMIC UNCLASSIFIED

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RESEARCH INSTITUTE CONCLUDED THAT THE TREND TOWARD REVIVAL IN THE MANUFACTURING SECTOR BECAME MORE PRO- NOUNCED IN JANUARY. NEW ORDERS AND PRODUCTION IN- CREASED. NONETHELESS, THERE WAS A 27 PERCENT MARGIN OF RESPONDENTS WHO THOUGHT THE CURRENT SITUATION WAS POOR OVER THOSE THAT CHARACTERIZED IT AS BEING GOOD. CAPA- CITY UTILIZATION (SEASONALLY-ADJUSTED) IS ESTIMATED TO HAVE AVERAGED 80 PERCENT IN JANUARY, THUS EXCEEDING OCTOBER 1975 LEVELS BY 1.5 PERCENTAGE POINTS. THE NUMBER OF FIRMS EXPECTING A PICK-UP OF BUSINESS DURING THE NEXT SIX MONTHS ROSE FURTHER AND NOW EXCEEDS THAT OF THE OUTRIGHT PESSIMISTS BY 23 PERCENT. HOWEVER, BY FAR THE LARGEST GROUP OF

THOSE SURVEYED ARE STILL THOSE FORESEEING NO CHANGE.
HILLENBRAND

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